

P-421, 405, 407, 430, 426, 520, 427/CI-87-76 ORDER REQUIRING
CERTAIN PARTIES TO FILE INFORMATION CONCERNING THE NEED FOR
FURTHER PROCEEDINGS ON THE METROPOLITAN TIER RATE DESIGN OF U S
WEST COMMUNICATIONS, INC.

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Darrel L. Peterson
Cynthia A. Kitlinski
Dee Knaak
Norma McKanna
Patrice M. Vick

Chair
Commissioner
Commissioner
Commissioner
Commissioner

In the Matter of the Petitions
of Certain Subscribers in the
Exchanges of Zimmerman,
Prescott, Waconia, Belle Plaine,
North Branch, Lindstrom, New
Prague, Cambridge, Hudson,
Houlton, LeSueur, Cannon Falls,
Delano, Northfield, Buffalo, and
Watertown for Extended Area
Service to the Minneapolis/St.
Paul Metropolitan Calling Area

ISSUE DATE: June 18, 1991

DOCKET NO. P-421, 405, 407, 430,
426, 520, 427/CI-87-76

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THE NEED FOR FURTHER PROCEEDINGS
ON THE METROPOLITAN TIER RATE
DESIGN OF U S WEST
COMMUNICATIONS, INC.

PROCEDURAL HISTORY

The Commission initiated its inquiry into U S West Communication's (U S West's) tier rate design on March 20, 1987, in its initial Order in the Consolidated Metropolitan Extended Area Service (EAS) case. In that Order, the Commission asked whether the needs of the region were best served by U S West's existing tier rate structure.

On June 20, 1989, the Commission issued another Order in the EAS case. In that Order, the Commission found that the U S West tier system continued to be serviceable and that questions regarding effective alternatives were beyond the scope of the metropolitan EAS proceeding. The Commission directed its staff to review the appropriateness of U S West's metropolitan tier rate design and advise the Commission on the need to initiate a separate proceeding to examine the issue.

The staff report ordered by the Commission was submitted in February 1990. A supplemental staff report was submitted in November 1990 to discuss how U S West's tier rate structure was affected by new EAS legislation enacted April 27, 1990 and the Northwestern Bell Incentive Plan Case.

The Commission met on December 4, 1990 to consider the tier rate design issue. The Commission issued its Order in that proceeding on December 21, 1990. The Order established a comment period and asked parties to identify the legal and policy issues the Commission should consider in determining whether to retain or change the current tier rate design.

In late January 1991, the Department of Public Service (Department), the Suburban Rate Authority (SRA), the Residential Utilities Division of the Attorney General's Office (RUD-OAG) and U S West submitted comments in response to the Commission's December 21, 1990 Order. The SRA and U S West submitted reply comments in early February 1991.

The Commission met on May 23, 1991 to consider the comments of the parties.

FINDINGS AND CONCLUSIONS

The tier rate system divides U S West's St. Paul/Minneapolis metropolitan service area into four tiers in concentric rings around the Twin Cities. Rates for local service increase proportionately from the inner tier, Tier I, to the outermost tier, Tier IV. Rates for a one-party residence currently range from \$14.16 in tier I to \$17.89 in tier IV. One-party business rates range from \$42.48 in tier I to \$53.67 in tier IV.

The tier system was instituted in 1979 as a result of U S West's (then Northwestern Bell's) general rate case. These rates were increased in U S West's 1980 general rate case. The tier structure was examined and retained in U S West's 1982 and 1983 general rate cases and again in the Commission's 1987 redeliberation of the 1983 rate case. The tier rate design has remained unchanged since that time.

The Department, SRA and RUD-OAG recommend the Commission review the current tier rate design to determine whether it is still an appropriate rate structure for local service in the metropolitan area. Both the Department and SRA request that the Commission order U S West to complete a cost study for its metropolitan service area and establish a task force to develop cost study methodology. Both parties believe that cost and non-cost factors have changed substantially since the tier system was first adopted such that the current rate structure may no longer be reasonable. The RUD-OAG supports a change in the tier rate structure; however it does not believe the Commission needs to require a new cost study to address the issue. The RUD-OAG believes that there is sufficient information available to show that the tier rate design is no longer justified.

U S West maintains that the current tier rate design is justified by both cost and non-cost factors. Among the factors cited by U S West are (1) customer acceptance of the tier rate design as evidenced by the small number of customer complaints concerning the tier structure; (2) the cost of responding to inquiries and complaints from some portion of the approximately 400,000 customers whose rates would increase if the tier structure were replaced with uniform metropolitan rates; (3) the administrative costs of implementing a new rate design; and (4) the burden a uniform rate structure would place on low income customers living

in the Twin Cities, based on U S West's assumption that most of its low income customers live within the city limits of St. Paul and Minneapolis. U S West also contends that the cost study required to evaluate the tier rate system would be expensive and time-consuming, costing close to \$1 million dollars and taking approximately one year to complete.

The positions of the parties are clear on whether the Commission should inquire further into replacing the current metropolitan tier rate design. The Department, SRA and RUD-OAG all recommend additional evaluation of the tier structure with a view towards possibly replacing it. U S West contends that no further inquiry is necessary and that the current tier rate design is reasonable and serves the public interest.

The positions of the parties are not as clear on the nature or cost of such an inquiry. The Department and SRA appear to agree on the need for a new cost study; however, the RUD-OAG asserts that such a study is unnecessary. U S West agrees with the Department and SRA on the need for a cost study if the Commission chooses to evaluate the tier system further; however, U S West estimates the cost of such a study to be far greater than the cost suggested by the other parties. None of the parties has given a precise estimate of the costs that would be involved in any further investigation of U S West's tier rate design.

The Commission finds that it would be helpful to defer a decision on whether further investigation of the metropolitan tier rate design is warranted until the Commission has a better understanding of the costs the investigation would entail. Therefore, the Commission will require the parties to detail the scope and cost of an investigation that would be sufficiently thorough to enable the Commission to determine whether the current tier rate design should be replaced. The parties are encouraged to meet and attempt to reach agreement on these issues.

ORDER

1. The Department, RUD-OAG, SRA and U S West shall attempt to reach consensus on the information needed to evaluate the current metropolitan tier rate design. These parties shall also provide the Commission with the following information within 30 days of this Order:
 - (1) a summary of the available cost of service data that would be useful in evaluating the current metropolitan tier rate structure;
 - (2) a description of the additional information or studies, if any, needed to evaluate adequately the current metropolitan rate structure;

- (3) an estimate of the cost to U S West of any additional studies needed to evaluate the current tier rate design and an estimate of how long it would take to complete the studies; and
 - (4) an estimate of the cost to the Department, RUD-OAG, SRA and U S West of further proceedings to review and consider replacing the metropolitan tier rate system. Each organization's estimate of these costs shall identify separately its managerial, technical, clerical, legal and other relevant costs.
2. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Richard R. Lancaster
Executive Secretary

(S E A L)